

## MR Insights

### DOD Outsourcing and Privatization

by J. Michael Brower

Since the Cold War's end, the Department of Defense (DOD) has borne about 80 percent of all government cutbacks. After four rounds of base closures, cutbacks have resulted in the loss of around 355,000 civilian and 743,000 military slots. This means more competition for private defense workers and less security for mid- and lower-level DOD personnel.

All the heavy cuts in DOD's permanent work force have still failed to generate enough savings to offset planned procurement expenditures called for under the May 1997 *Qua-*

*drennial Defense Review*. In June 1997, 15 business leaders from the Business Executives for National Security, a group of US defense contractor executives, declared that DOD could make up the procurement shortfall of around \$15 billion through more aggressive outsourcing and privatization (O&P). For those facing the one-two O&P punch for the first time, the financial reasoning to contract out jobs is confusing and elusive. Where are the savings? You need not have an encyclopedic grasp of things-financial to figure it out. The savings come, in the main,

from cutting the expense of keeping permanent employees.

#### "Outsourcery"

Financial hocus-pocus from countless industry-oriented consulting firms disguise the fact DOD O&P savings generally remain inconsequential at best, anecdotal at worst. Outsourcing and privatization have common sources for bigger, blacker bottom lines—lower labor costs. It is the potential of reducing those costs in the short term that compels many company executive officers and the safely stratospheric (military and civilian) bureaucrats to

tinker with the O&P moniker.

About 40 percent of the biggest companies in the United States have outsourced at least one major piece of their operations.<sup>1</sup> Workers with "permanent jobs" get their first introduction to outsourcing with all the gentle indoctrination of Cambodian communism. This fashionable management paradigm swings its scythe at employees public and private when leadership becomes convinced that expertise is more economically and practicably contracted out than grown within.

Fundamentally, outsourcing is the pursuit of reduced employee labor costs at a break-even quality. Specialization metal is used for this economic alchemy. The presumption is that workers focusing on a particular productive activity will have been led by enlightened management to invent economic efficiencies that can deliver a service or product cheaper than those in-house.

Outsourcing occurs in industry when a company believes it can save money moving in-house activities to an organization that specializes in a given line of work. Such companies are either trying to belt-tighten or, if they are growing, want to refocus their efforts on core functions. As average defense workers know, many DOD activities have been directed to "save money by outsourcing" no matter how much it costs.

Operation *Joint Endeavor* in Bosnia was the quintessence of DOD outsourcing. According to *Armed Forces Journal International* editor John Roos, it produced a real windfall for contractor Brown & Root.<sup>2</sup> Labor savings were realized through the Logistics Civil Augmentation Program (LOGCAP) using contractor labor at \$100 million dollars compared with the \$318 million dollars it would have cost to have soldiers do the work. Support for government employees—retirements, solid benefits, free chow and so forth—were expenses the contractor, in the main, did not have to countenance. *Lesson learned:* While other ways of reducing costs exist (for example, velocity management, process reengineering, single-stock funds, use of technol-

ogy, and so on), none are as readily demonstrable or as quickly registered as payroll reductions.

### "Piratization"

Privatization—the movement of functions, and often concomitant resources, to the private sector, which had been performed by government employees—places a public trust into a market-oriented company's hands. Unfortunately, at DOD, privatization has only revealed to average, vulnerable defense workers its sinister guise of economic BUCKaneer.

One of the most ruthlessly sought-after privatization prizes at DOD is Defense Finance and Accounting Service (DFAS). DFAS was the result of post-Cold War accounting and finance consolidation initiated in 1991. Already in the process of internal restructuring and self-criticism aimed at considering operations that may be privatized, industry has influenced the Senate version of the Defense authorization bill passed in May, which requires DOD to study contracting-out core DFAS functions.

Industry contends that it can pay people less salary and benefits than DOD workers receive to perform the processing work associated with a monthly average of 9.8 million personnel checks, 830,000 commercial invoices, 730,000 travel vouchers and 200,000 transportation bills—and pass the savings on to the American taxpayer. If the people doing the work were not themselves taxpayers, what a deal it would be! But that is the problem—flattened wages, job insecurity, reduced holiday, sick time, health and other benefits—how does that "save" the taxpayers who are privatization's victims? DFAS, doing in excess of \$20 billion of disbursements each month, would be a well-hung trophy for the forces of privatization. The result would be massive layoffs for federal employees due to automation in the industry and the existence of companies already providing similar services.<sup>3</sup>

### The Bigger Picture

Without some conscious prompting, defense-related capital will fly to areas having the greatest security and

lowest labor costs, unless it is compelled to look at the long-term effects of its migration. Military and civilian defense jobs create wages used to purchase goods and services. A lack of jobs translates into a lack of purchasing power. This is currently being compensated for by the extension of unsecured credit (that is, public debt), the most combustible ingredient in the fuel currently heating up the global economy. Industry's tactic of rehiring at reduced wages and benefits those same defense workers displaced by O&P undermines the ability of the work force to afford products and services. In this way, O&P ultimately lowers total purchasing power.

The enemy phrases served up for the breakfast of O&P champions are "lifetime employment," "steady jobs," "union-made," "good benefits plan" and "job security." All of these once-cherished ideals were associated historically with working for defense. Now temporary employees and individual contractors, benefitless or under-benefited, without the prospect of job security, are the order of the defense day. When the vogue of O&P fades, its legacy will be one of short-term profit, long-term economic instability and a degenerated level of national security—all at the expense of average defense workers who are O&P's chief source of value and profit. **MR**

### NOTES

1. Thomas Hoffman, "Users Say Move Quickly When Outsourcing Your Personnel," *Computerworld*, 17 March 1997, 77.

2. John Roos, "The Outsourcing Boom," *Armed Forces Journal International*, October 1996, 18.

3. Heather Harrel, "Senate urges privatizing DOD finance," *Federal Computer Week*, 8 June 1998, 14.

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